WASHINGTON (October 1) – Congressman Spencer Bachus (AL-6), Ranking Member on the House Financial Services Committee, made the following statement today during the Full Committee hearing entitled, “Federal Reserve Perspectives on Financial Regulatory Reform Proposals.”

“Mr. Chairman, I want to thank you for holding today’s hearing and welcome Chairman Bernanke.

“Chairman Bernanke, in the run-up to the worst financial and economic crisis since the Great Depression, the Federal Reserve offered few warnings of the forces undermining the foundations of our markets and the industrial and commercial structures on which we depend. We did not have messages to Congress predicting the implosion of the housing markets, the possible chain reaction in derivative markets, over reliance on credit ratings, or pay-to-play corruption of the municipal securities markets. And yet, we are now asked to designate the Federal Reserve as the agency in which we place our trust as the systemic risk regulator to protect against the forces that will endanger the economy in the future. In my questioning, I will ask what has changed that should make us believe the Fed will be up to the task in the future that it so manifestly could not handle in the past.

“Even in retrospect there is not agreement on the systemic risk components that should have been discerned in 2006, 2007 or even 2008. We need to know what you saw then as the systemic risk factors and what you said about them at the time. More critically, we need to know what you see as the systemic risks going forward and what you believe should be done about them.

“Frankly, it seems to me to be unfair and unreasonable to ask any single agency to foresee all the problems that could pose risks to something as complicated as our economy. That is why a council with members from a broad spectrum of agencies seems to be a far better approach with a greater possibility of seeing the gathering forces of economic instability. It also seems unfair to ask one agency to handle a responsibility as complex and difficult as monetary policy and the other responsibilities proposed in the Administration’s plan.

“The House Republican Regulatory Reform plan removes all supervisory and examination powers from the Federal Reserve, including consumer protection. The difference between the Administration’s approach to consumer protection and the House Republican plan is that the Obama plan creates a massive new government bureaucracy that will limit access to credit, impose excessive compliance and litigation costs on small banks, and undermine safety and soundness regulation. In contrast, the House Republican plan streamlines and consolidates regulators, including their consumer protection functions, which will create better regulation, and will be better for taxpayers and consumers.

“The differences in regulatory approaches extend beyond consumer protection. The House Republican Plan refocuses the Federal Reserve on its primary mission of conducting sound monetary policy. The Administration’s plan calls on the Federal Reserve to serve as the primary systemic risk regulator, further extending its reach into the financial system and creating potential conflicts with its monetary policy mandate. Despite the fact that the Federal Reserve failed to predict the current economic crisis, the Administration’s proposal assumes the Fed will somehow gain the ability to foresee the unforeseeable.

“Most significantly, the Administration plan would perpetuate the notion that some institutions are “too big to fail,” guaranteeing future taxpayer bailouts of ailing financial behemoths. The House Republican plan rejects, once and for all, the “too big to fail” doctrine by ensuring that the costs of failure are borne by a failing institution’s creditors and counterparties in bankruptcy. During testimony before this Committee last week, former Federal Reserve Chairman (and current Obama economic advisor) Paul Volcker criticized the Administration’s proposed expansion of the taxpayer safety net to a broad class of non-bank financial institutions, including investment banks and hedge funds, and warned that the Administration’s plan will “encourage the too big to fail syndrome.”

“In closing, Mr. Chairman, the obvious lesson of the financial crisis is that we need smarter regulation, not more regulation, not more government bureaucracy, and not more incentives to engage in harmful business practices. Our 1930s regulatory system is not up to the task of monitoring the safety and soundness of complex financial firms in a 21st century economy. What is needed are regulatory reforms that will end the bailouts once and for all; get the government out of picking winners and losers in the market; and restore market discipline so that financial firms will no longer expect the government to rescue them from the consequences of imprudent business decisions.”

NOTE: *Click here to view Ranking Member Bachus’ remarks during the hearing.*